APPENDIX G

GUIDELINES FOR DEVELOPING SKILL-BASED SYSTEMS

INTRODUCTION

The Commonwealth's Compensation Management System has been designed to provide a direct link between organizational performance and employee contribution and pay. ***Skill-based Systems*** are one method of achieving this linkage. Agencies wishing to consider establishing a skill-based system are encouraged to use these guidelines; staff from DHRM should also be consulted.

Skill-based Systems reward employees for the range, depth and type of skills they possess that are key to the organization's work functions and operations. Additionally, ***Skill-based Systems*** may be used to directly link an employee's compensation to work-related skills learned and used on the job. As the needs of the organization change, compensable skills can be added or eliminated to encourage employee development to meet the changing business needs. ***Skill-based Systems*** represent a person-based rewards system, as opposed to a job-based reward system.

Agencies interested in developing a ***Skill-based System*** must identify what goal(s) they are seeking to achieve. Questions to consider are "what outcomes or results will be expected from implementing a ***Skill-based System***?" and "what skill sets are valued?". Some potential answers may be increased productivity, multi-skilled workforce, acquisition of new skills needed for a changing work environment, increased employee morale, or to solve a specific problem, issue or need.

In a ***Skill-based System***, the focus is on skill acquisition that can be observed and objectively measured. Therefore, this type of system is most commonly found in trades or labor settings. ***Skill-based Systems*** can be designed from two perspectives:

- horizontal or breadth of skills where cross training is emphasized (e.g. a multi-skilled trades worker possess electrical, plumbing, HVAC, and carpentry skills); and
- vertical or depth of skills where specialization and expertise is valued (e.g. an electronic technician possesses the entire range of electrical and electronic skills).

Skill blocks are identified sets of skills, knowledge and tasks that are required based on the work to be performed. ***Skill blocks*** focused on breadth of skills or the versatility of the individual tend to have an array of different categories of skills. ***Skill blocks*** that focus on the depth of skills or expertise in a particular area tend to have a more narrowly defined, specialized set of skills. Determining whether the ***Skill-based System*** will be based on breadth, depth or a combination is a key design decision.

Like other alternative pay and job evaluation systems, a ***Skill-based System*** is fairly labor intensive and requires the agency's commitment to designate the necessary staff resources during the development stages. Additionally, ***Skill-based Systems*** should not be perceived as a "one size fits all" approach. It would be highly unlikely, given the Commonwealth's workforce, that an agency would implement a ***Skill-based System*** agency-wide for the entire employee population. It is important that an agency identify the specific work unit(s) where observable and measurable skills may be identified and would contribute to the overall success of the work unit(s) and agency.

While there are many benefits to implementing a ***Skill-based System*** under the right circumstances, it is not totally free from potential risks. Poorly designed ***Skill-based Systems*** can lead to paying for skills that are not used or not relevant to the business needs of the agency. Employees may reach their maximum pay rates with the attainment of the entire set of identified skills which limits opportunity for further salary increase but allows for a fully skilled workforce. Paying employees based on skills attained and used makes it more difficult to make pay comparisons with the labor market that focuses on job-based rather than individual skill-based comparisons. Agencies will need to convert ***skill blocks*** into benchmark descriptions in order to continuously review and match ***salary reference data***.

What are skills and skill blocks?

Skills are the basic components of a ***Skill-based System***. These skills typically are grouped into ***skill blocks*** that include predefined set of skills, knowledge and tasks. When performed by employees, these ***skill blocks*** will add value to the work process and increase the likelihood of the work unit's success. Skills and ***skill blocks*** should be directly related to the business needs of the agency. Based on business needs, agencies should encourage employees in a ***Skill-based System*** to achieve the highest potential skill level required. As more ***skill blocks*** are acquired and are used, the potential value of the employee increases.

An example of a skill block follows:

DUMP TRUCK – SINGLE AXLE

A. **Spreading Material**
- Stone – Determine where stone is needed and spread in a manner that does not require additional work and equipment to level. Uses chain settings effectively to ensure proper application of stone.
- Asphalt – Spread material uniformly and ensure proper placement.

B. **Hauling and Dumping Material** - Determines appropriate dumping locations, hauls (with cover) and dumps in areas without damage to equipment.

C **Snow Removal** – Load spreader and plow on truck. Install chains, if required. Set appropriate settings on spreader. Pushes snow and operate spreader according to instructions.

D. **Towing Equipment** – Hook, unhooks and pulls and maneuvers light duty equipment.

E. **Preventive Maintenance** – Perform daily operator's checklist and rectify all minor problems determined while performing the checklist. Change oil, grease, change filters, keep all fluids at proper levels.

How are Skill-based Systems used?

Skill-based Systems can serve as a way to integrate human resource practices under the Compensation Management System. Agencies that elect to use ***Skill-based Systems*** need to consider exactly how they will be used to support the agency's mission and desired strategic outcomes. Furthermore, agencies will need to determine the extent to which this type of system will impact and affect the agency's human resource practices. The following is a list that should be taken into consideration when determining the purpose and intent of an agency's rationale for using ***Skill-based Systems***.

- **Training and Development** – connection to agency business need is the cornerstone to ***Skill-based Systems***. The agency's commitment to learning is vital to the success of the system. Employees must be given the

opportunity to acquire the knowledge and/or skills required for the progression through the ***skill blocks***. The skills identified within a ***skill block*** may serve as curriculum for training. Training plans should be well documented, include specific training objectives and communicated to employees.

- **Recruitment and Selection** - systems can be developed to identify knowledge and skills for recruiting and assessing applicants for agency positions.
- **Performance Management** - systems can be used to support the assessment of employee performance.
- **Compensation Decisions** – systems will determine how pay will be administered based on defined ***skill blocks*** and guide other pay decisions (e.g. starting pay, promotions, in-band adjustments, etc.).

What are the steps for developing Skill-based Systems?

The following is a suggested approach, but agencies need to tailor the process to meet business needs and objectives.

1. **Identify the group of employees to be covered:** This step consists of linking the business goals with the ***Career Group*** or agency work unit(s) that are most appropriate for a ***Skill-based System***. Typically, ***skill blocks*** are created to reflect the skills needed for employees in ***Career Group(s)***, ***Role(s)*** or functions within a ***Role***. ***Skill-based Systems*** compliment job and pay structures that have broad ***Roles*** and extended pay bands.

2. **Gather data:** Identify knowledge and skills that are important to the work unit(s) and can be objectively measured. The use of ***Focus Group(s)*** comprised of ***Subject Matter Experts*** (managers and employees) is the desired method to be used to identify skills and ***skill blocks***. It may be helpful to initially have the ***Focus Group(s)*** identify the tasks performed in the work unit(s) and then identify the skills needed to perform these work tasks. The "essential' tasks or skills should be explicitly identified, organized into ***skill blocks*** and rank ordered by degree of difficulty or complexity. Each skill must be clearly articulated to the point that verifiable measures or standards of performance can be established.

3. **Develop skill and skill inventories:** Based on the information identified in the data collection step, ***skill inventories*** are developed that list the discrete knowledge and skills needed to complete the required tasks. The ***skill inventories*** are helpful to both supervisors and employees for career development purposes and outline clearly how performance will be measured and assessed.

How are Skill-based Systems validated?

After the ***skill blocks*** and/or ***skill inventories*** have been developed, each skill should be validated. Functional supervisors that have a detailed understanding of the work and its relationship to business need should be asked to validate the accuracy of the identified ***skill blocks*** and/or ***skill inventories***. As business needs or skill requirements change, functional supervisors should provide input to modify the ***skill blocks*** and/or ***skill inventories***.

How are Skill-based Systems linked to pay?

In the Commonwealth's Compensation Management System, employee compensation is based on an evaluation of the following ***pay factors*** (see Chapter 8 – Pay Practices):

- Agency business need;
- Duties and responsibilities;
- Performance;
- Work experience and education;
- Knowledge, skills, abilities and competencies;
- Training, certification and license;
- Internal salary alignment
- Market availability;
- Salary reference data;
- Total compensation;
- Budget implications
- Long term impact; and
- Current salary

Using the ***skill blocks***, agencies determine which skills are compensable. Market data can be obtained to identify a sub-band or pay band to support a ***Skill-based System***. Once the sub-band or pay band has been established, the ***skill blocks*** can then be assigned to the continuum. Thus, the ***skill blocks*** become the unit measurement for pay increases within a sub-band or pay band.

There are a number of design options that should be taken into consideration when administering pay in a ***Skill-based System***. Progression through a ***skill block*** can be compensated by a variety of methods including constant dollar amount, increasing dollar amount, fixed percentage or increasing percentage amount. The timing of pay increases should also be considered. Oftentimes an agency will want to establish some limitations on the pay increase process in order to control cost. For example, a control measure may be to require the employee to remain at a skill level for a fixed period of time or another option would be for the agency to establish a policy that sets the maximum increase an employee may receive during a specific time period.

The timing of pay increases and any cost control measure has a significant impact on both employee morale and cost escalation. Consideration should be given to any other type of direct compensation awards the employee may be eligible for such as recognition awards, retention and market-based adjustments. Other compensation actions should support the goals and intent of the ***Skill-based System***.

Procedures must be developed for establishing starting pay for new hires and/or employees transitioning from a traditional pay and job evaluation system to a ***Skill-based System***. A key issue during the transition is how current employees will be moved to the ***Skill-based System***. Key implementation decisions such as how current employees will be paid initially under the system need to be determined (e.g. placed at the entry level or obtain an initial or baseline assessment certifying the employee's current skill level). Lastly, consideration must be given to how the agency will handle employees whose skills diminish (e.g. freeze employee's pay or reduce pay).

How is a Skill-based System linked to performance planning and evaluation?

Skill-based Systems provide the supervisor and the employee with a clear understanding of the performance expectations and clearly address the

learning activities that are necessary for successful performance. Additionally, this type of system helps supervisors and employees to share the same understanding of expected performance.

Agencies must determine the overall method for determining the employee's skill level. The process developed will serve as a way to certify that the employee has met all performance standards established for a ***skill block***. Evaluation methods to consider include checklists, skill demonstration or testing. Consideration must be given to the timing of the performance measure. Questions to be answered include: Will performance be measured at a designed time (annually, semi-annually, quarterly)? Will the employee be assessed on skills only one time or will the continued mastery of the skill be required?

After identifying a method for assessing the employee's skills, the next step is to identify who will assess the performance. Evaluators can be managers, technical and functional experts, peers or an assessment team with optional rotating membership. The evaluation of skills can be accomplished either by a paper or automated process.

How are Skill-based Systems evaluated?

The ***skill block(s)*** and pay mechanism that is established must make sense in terms of the goal the agency is seeking to accomplish and must be understandable to employees. An evaluation plan should be established and implemented to ensure that the ***Skill-based System*** is effectively meeting the agency needs and reflects the desired knowledge and skills needed by the agency.